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# U.S., state rolling out incentive welcome mat to homebuyers

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By **LESLIE BERKMAN**  
The Press-Enterprise

On Sunday a \$10,000 state tax incentive takes effect in the hope it will push reluctant homebuyers into the market, but industry analysts doubted it will jump-start California's homebuilding industry.

The state incentive, which is exclusively for buyers of newly constructed houses, together with a new federal tax incentive for first-time buyers, could enable people qualified for both programs to get an income tax break of up to \$18,000 for buying a house.

Some analysts said they think the programs could create some excitement and provide a financial boost for some homebuyers. But they contend the help is too little to turn around the housing market or replace the hundreds of thousands of jobs the state has lost in homebuilding and related sectors.

The magnitude of the problem is so great that this is not going to solve it," said Chapman University economist Esmael Adibi.

The state tax incentives will end March 1, 2010, or when a \$100 million allocation for the program is depleted. Each homebuyer is eligible for a credit of 5 percent of the home price or a maximum of \$10,000 on a \$200,000 home. So it is possible that the state program will stimulate the sale of only about 10,000 new homes.

The federal tax credit allows up to \$8,000 credit for the purchase of any home for first-time buyers within certain income limits if purchased by Dec. 1. Unlike the state program, it covers both new and used houses. Both programs require buyers to occupy the homes.

Statewide there are more than 26,000 unsold homes in new home subdivisions, including 3,339 in Riverside and San Bernardino counties, and even more houses are under construction without buyers, according to Metrostudy, a real estate consulting firm.

John Burns, chief executive of John Burns Real Estate Consulting in Irvine, said while the state funds may be enough to help sell some of these standing homes, it won't be sufficient to spur new construction.

### **Priorities**

Chris Thornberg, an economist with Los Angeles-based Beacon Economics, complained that the state tax credit "will bail out homebuilders who built homes no one wanted."

Thornberg and other economists said before the homebuilding industry can regain its health, the first priority is to sweep away the flood of foreclosed properties that are selling at distress prices. For that reason, Thornberg said he thinks the federal incentive program will do more good than the state program because it focuses on first-time buyers and allows them to buy foreclosed houses.

At a news conference Thursday morning, officials of the California Building Industry Association, including senior vice president Tim Coyle, and Layne Marceau, president of the northern California division of Shea Homes, said they were hopeful the state tax credit that Gov. Arnold Schwarzenegger signed into law last week would revive homebuilding and the broader economy.

### **Generating Buying**

California homebuilders produced 66,000 homes in 2008, which was a 68 percent drop from 2005. And without the tax stimulus, 2009 is forecasted to be even slower, Coyle said. He said he believes the tax incentive will stimulate homebuying because a similar national program put into effect during another housing slump in 1975 caused home sales to double within a year, and within two years homebuilding had rebounded to normal levels.

Marceau said that although the state program funding may run out before the end of the year, he is hopeful the buyer excitement will be sustained and possibly the program will receive a further allocation.

Mike Van Daele, chief executive of Van Daele Development, a Riverside-based homebuilder, said the state tax credit is "the most significant boost to new homebuilding that has been put in place to date because it is being made available to everyone and anyone."

Unlike the federal program, the state credit has no income limit and can be used by move-up as well as first-time buyers.

Van Daele also noted that while foreclosures have whipped up buyer interest in the resale market, the new home market has not seen a similar resurgence of activity because homebuilders cannot compete with foreclosure prices. He said the state tax credit will give homebuilders a new competitive edge against foreclosures.

Local Building Industry Association officials say there is a limit to how much good the tax credits will do.

### **'Window dressing'**

"Tax credits alone aren't going to reinvigorate the industry but anything helps," said Mark Knorringa, chief executive of the association's Riverside County chapter.

Frank Williams, chief executive of the association's Baldy View chapter, which includes San Bernardino County, said the programs are "well meaning but not near enough."

He said the federal credit needs to be twice as large and not a credit but cash that a buyer could use as a down payment. Also, he called the state program "window dressing" that probably will run out of money within six months.

*Reach Leslie Berkman at [lberkman@PE.com](mailto:lberkman@PE.com) or 951-368-9423*

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